

**REPORT OF THE AUDIT OF THE
HARRISON COUNTY
SHERIFF'S SETTLEMENT - 2003 TAXES**

March 31, 2004



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
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EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
HARRISON COUNTY
SHERIFF'S SETTLEMENT - 2003 TAXES

March 31, 2004

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2003 Taxes for Harrison County Sheriff as of March 31, 2004. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$4,984,672 for the districts for 2003 taxes, retaining commissions of \$170,286 to operate the Sheriff's office. The Sheriff distributed taxes of \$4,813,406 to the districts for 2003 Taxes. There are no additional taxes due districts or refunds due the sheriff.

Report Comment:

- Lacks Adequate Segregation Of Duties

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities or bonds.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Dean Peak, Harrison County Judge/Executive
Honorable Bruce Hampton, Harrison County Sheriff
Members of the Harrison County Fiscal Court

Independent Auditor's Report

We have audited the Harrison County Sheriff's Settlement - 2003 Taxes as of March 31, 2004. This tax settlement is the responsibility of the Harrison County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Harrison County Sheriff's taxes charged, credited, and paid as of March 31, 2004, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated September 29, 2004, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.



To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Dean Peak, Harrison County Judge/Executive
Honorable Bruce Hampton, Harrison County Sheriff
Members of the Harrison County Fiscal Court

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

- Lacks Adequate Segregation Of Duties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
September 29, 2004

HARRISON COUNTY
BRUCE HAMPTON, COUNTY SHERIFF
SHERIFF'S SETTLEMENT - 2003 TAXES

March 31, 2004

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 568,050	\$ 762,564	\$ 2,140,229	\$ 763,388
Tangible Personal Property	52,743	66,481	161,092	269,422
Intangible Personal Property				39,919
Franchise Corporation	50,816	63,714	164,355	
Additional Billings	83	111	314	112
Penalties	3,668	4,911	13,723	5,488
Adjusted to Sheriff's Receipt	2	992	4	33
Gross Chargeable to Sheriff	<u>\$ 675,362</u>	<u>\$ 898,773</u>	<u>\$ 2,479,717</u>	<u>\$ 1,078,362</u>
<u>Credits</u>				
Exonerations	\$ 1,402	\$ 1,873	\$ 5,208	\$ 2,102
Discounts	9,671	12,923	35,753	17,463
Delinquents:				
Real Estate	7,672	10,299	28,906	10,307
Tangible Personal Property	530	668	1,619	458
Uncollected Franchise	137	135	416	
Total Credits	<u>\$ 19,412</u>	<u>\$ 25,898</u>	<u>\$ 71,902</u>	<u>\$ 30,330</u>
Taxes Collected	\$ 655,950	\$ 872,875	\$ 2,407,815	\$ 1,048,032
Less: Commissions *	<u>28,165</u>	<u>37,097</u>	<u>60,195</u>	<u>44,829</u>
Taxes Due	\$ 627,785	\$ 835,778	\$ 2,347,620	\$ 1,003,203
Taxes Paid	627,658	835,608	2,347,144	1,002,996
Refunds (Current and Prior Year)	<u>127</u>	<u>170</u>	<u>476</u>	<u>207</u>
Due Districts				
as of Completion of Fieldwork	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

* Commissions:

10% on	\$	10,000
4.25% on	\$	2,566,857
2.5% on	\$	2,407,815

The accompanying notes are an integral part of this financial statement.

HARRISON COUNTY
NOTES TO FINANCIAL STATEMENT

March 31, 2004

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of March 31, 2004, the Sheriff's deposits were fully insured or collateralized at a 100% level with collateral of pledged securities held by the Sheriff's agent in the Sheriff's name.

HARRISON COUNTY
NOTES TO FINANCIAL STATEMENT
March 31, 2004
(Continued)

Note 3. Tax Collection Period

Property Taxes

The real and personal property tax assessments were levied as of January 1, 2003. Property taxes were billed to finance governmental services for the year ended June 30, 2004. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 13, 2003 through March 31, 2004.

Note 4. Interest Income

The Harrison County Sheriff earned \$3,906 as interest income on 2003 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder will be used to operate the Sheriff's office

Note 5. Sheriff's 10% Add-On Fee

The Harrison County Sheriff collected \$20,833 of 10% add-on fees allowed by KRS 134.430(3). This amount will be used to operate the Sheriff's office.

Note 6. Advertising Costs And Fees

The Harrison County Sheriff collected \$480 of advertising costs and \$2,080 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees will be used to operate the Sheriff's office.

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COMMENT AND RECOMMENDATION

HARRISON COUNTY
BRUCE HAMPTON, COUNTY SHERIFF
COMMENT AND RECOMMENDATION

As of March 31, 2004

INTERNAL CONTROL – REPORTABLE CONDITION & MATERIAL WEAKNESS:

Lacks Adequate Segregation Of Duties

The Sheriff's Office has a lack of segregation of duties. Due to the entity's diversity of official operations, small size and budget restrictions the official has limited options for establishing an adequate segregation of duties. We recommend that the following compensating controls be implemented to offset this internal control weakness.

- Cash periodically recounted and deposited by the official.
- Surprise cash counts by the official.
- Official should periodically agree daily tax collection totals to receipts ledger and deposit slip.
- Official should agree monthly tax reports to receipts ledger and disbursements ledger.
- All disbursement checks should be signed by two people, one being the official.
- Official examines tax distribution prepared by another employee.
- Official delivers tax distribution checks and monthly reports to the taxing districts.

Sheriff's Response:

No response noted

PRIOR YEAR:

Lacks Adequate Segregation Of Duties

This comment has been repeated in the current year.

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REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Dean Peak, Harrison County Judge/Executive
The Honorable Bruce Hampton, Harrison County Sheriff
Members of the Harrison County Fiscal Court

**Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

We have audited the Harrison County Sheriff's Settlement - 2003 Taxes as of March 31, 2004, and have issued our report thereon dated September 29, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Harrison County Sheriff's Settlement - 2003 Taxes as of March 31, 2004 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Harrison County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying comment and recommendation.

- Lacks Adequate Segregation Of Duties.



Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is a material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Crit Luallen', written in a cursive style.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
September 29, 2004

